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ABSTRACT

Noting the rapid and large changes in international finance over the past 2 decades, this paper offers suggestions for teaching business education courses on international finance. The paper recommends a combination of computer-assisted instruction and electronic classroom, discussion group, independent study, and lecture. Computer-assisted programs offer many software choices, while discussion groups can help build networks among students and opportunities to learn from each other. Independent study can assist in developing research skills, and lectures can bring all the work formats together to provide leadership and direction. Course content suggestions include history of the international monetary system, world economic systems, international trade theory, evolution of the foreign exchange market, interest rate parity, balance of payment accounts, and international banking. Effective education in international finance is considered to be essential for the United States' to maintain a competitive edge in world markets. Fifteen references are included. (JB)

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TEACHING TECHNIQUES AND COURSE CONTENT
FOR INTERNATIONAL FINANCE

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Abstract

This paper emphasizes the teaching of International Banking whose assets rose from \$130 billion in 1970 to \$4,800 billion in 1987, as part of the course content for International Finance. The importance of debt-servicing problems of debtor nations to international trade and the development of communication technology such as, computer software for financial transactions are analyzed.

The following suggestions are made:

1. Business educators should use Brazil's debt of \$110 billion, Mexico's debt of \$100 billion and Poland's debt of \$39 billion to demonstrate the importance of deficit spending and international financing of economic activities.
2. Professors with international experience should be used to teach this course.

Teaching Techniques and Course Course
for International Finance

Many factors are changing contemporary financing of economic activities and posing new challenges for world trade and participants. There have been worldwide financial liberalization, technological innovations in the field of telecommunication, large volume of capital flow across national borders and a relaxation of foreign exchange restrictions in many countries.

Consequently, there have been rapid growth of international financial centers and international banking centers for the past two decades. These financial centers have brought international banking and financial activities to all corners of the globe. For example, while the total volume of world trade is estimated at \$4 trillion per year, the international financial flows across national borders is estimated at \$200 trillion per year. Similarly, international banking assets rose from \$2.7 trillion in 1982 to \$4.7 trillion in 1987. These events and activities coupled with the advent of 'Perestroika' in Soviet Union and the move towards democracy in Eastern Europe, the need for wide knowledge of International Finance can not be overemphasized.

Section II of this paper discusses teaching techniques. Course content for International Finance is discussed in

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section III, while section IV present the conclusions.

Teaching Techniques

Various effort have been made over the years to find the best technique for effective teaching in colleges and universities. These efforts include the use of computer-assisted instruction, discussion group, electronic classroom, independent study, laboratories, lecture, media, personalized systems of instruction, programmed learning and simulations.

This paper suggests the use of a combination of computer-assisted instruction and electronic classroom, discussion group, independent study and lecture to teach this course as follows:

Computer-assisted instruction and electronic classroom

This technique is known as computer-assisted learning in the United Kingdom. In other Organization For Economic Co-operation And Development (OECD) countries, it is called a problem solving device, an aid in teaching new concepts, or a device which enables a student to acquire new knowledge.

Based on research findings, this study suggests that, professors should select softwares relevant to their topics from available educational softwares. There are about 10, 000 programs covering major school subjects in the United States of America (U.S.) and between 1,000 and

4,000 each in Australia, Canada, France, Italy and United Kingdom (Winship, 1989).

Discussion group

Effective teaching may sometimes involve finding a condition that will have the greatest impact on students learning. Dividing students into groups to discuss topics such as, balance of payment accounts of OECD countries and their relevance to international trade may provide such a condition (Claxton and Ralston, 1978, p. 92).

This technique will help students to develop networks among themselves. Developing networks may provide opportunities for them to learn from each other, acquire knowledge on global issues and promote active class participation by students.

Independent study

This technique should be used to encourage students to choose any multinational corporation and conduct a study of the activities of that corporation in a foreign country. A presentation of individual study should be made to the class.

This form of independent study may assist students in developing research skills in International Finance.

Lecture

Lecture is emphasized as a rallying point for all the techniques mentioned above because, professors of

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International Finance should use lectures to provide leadership and direction. Thus, it should be viewed from three perspectives as follow:

1. As a technique for solving problems so that students may acquire broader knowledge of the materials in the course.
2. As an aid in teaching new topics such as, foreign exchange rates and conversion, different currencies in the world and financial planning.
3. As a technique for exposing students to global issues through the use of case method involving multinational corporations and socio-cultural problems in foreign countries.

Course Content

At the end of World War II, the United States instituted the Marshall Plan to help Western European countries, Japan and Canada to develop their economies. Similarly, many countries are trying to restructure their economies due to changing economic and political systems all over the world. These changes involve international financing of economic activities.

Furthermore, the twelve member nations of European Community are working together to form a single market for about 320 million people of their countries. This plan calls for a removal of all regulations that stand

in the way of open market for their goods and services.

Domestically, firms in the U.S. spent about \$2.4 billion to buy European firms in 1987, while their European counterparts spent about \$37 billion to buy American firms in the same year. This acquisition of foreign firms underscores the accelerating pace of , international competition, finance and trade among nations. The question is, how should International Finance be taught in colleges and universities to recognize and prepare students to deal with challenges in foreign trade? This study suggests the teaching of the following topics as part of the course content.

History of the International Monetary System

The present international monetary system originated at the end of the Second World War when forty-four nations met at the International Monetary and Financial Conference of the United and Associated Nations in July, 1944 at Bretton Woods, New Hampshire. This conference was held to plan in advance for postwar financial reconstruction in order to achieve better cooperation among nations after the war.

The participants at the conference included Economist John Maynard Keynes who represented Great Britain and Harry Dexter White, who represented the United States.

An earlier study conducted by Harry Dexter White on international monetary system became the basis of the Bretton Woods Agreement. This agreement established Inter-Allied Stabilization Fund to stabilize exchange rates and remove exchange controls, and an Inter-Allied Bank to provide capital for reconstruction. The Inter-Allied Stabilization Fund and Inter-Allied Bank later became the International Monetary Fund and International Bank For Reconstruction and Development (World Bank) respectively. Some of the other points in the Agreement are:

- a) The designation of U.S. dollar and British pound sterling as reserve currencies for all nations.
- b) That the International Monetary Fund (IMF) should lend foreign exchange to any member contingent on acceptance by the member to pursue economic policies prescribed by the IMF (Grabbe, 1986).

World Economic systems

The smooth functioning of a country's economic system depends on the stability of its political system. Since many countries operative different economic systems, an overview of world economic systems may help students to have an idea of what to expect when involved in foreign business operations.

International Trade theory

The 1970's and 1980's have witnessed an explosive

growth in international trade. The total value of U.S. imports and exports rose from about 10 percent in 1970's to more than double its value in the 1980's. The purpose of this topic is to demonstrate the relationship between international trade and finance to students. The basis of this relationship is comparative trade because many countries engage in international trade to derive some benefits (Pippenger, 1984). The theory of comparative trade is illustrated as follows:

Suppose the U.S. has a comparative advantage in computers and Saudi Arabia (S.A.) has a comparative advantage in oil. Assume that both countries agree to trade and that before international trade, U.S. produces 90 units of computers and 30 barrels of oil, while S.A. produces 44 units of computers and 6 barrels of oil (see table 1). Therefore, anytime U.S. produces 1 barrel

Insert Table 1 about here

of oil, it gives up 3 units of computers. In anticipation of international trade, U.S. may produce 180 units of computers, while S.A. may produce 50 barrels of oil.

Both countries would trade if they can give up fewer units for what they receive from each other.

Table 1

Mutual Gains From Trade

United States (U.S.) And Saudi Arabia (S.A.)

Computers And Oil

	<u>United States</u>	<u>Saudi Arabia</u>	<u>Total-U.S & S.A</u>
Production	30 barrels	6 barrels	36 barrels
and	of oil	of oil	of oil
Consumption			
levels before	90 computers	44 computers	134 computers
international			
trade			
Production	0 barrels	50 barrels	50 barrels
level in	of oil	of oil	of oil
anticipation			
of	180 computers	0 computers	180 computers
international			
trade			

Suppose the U.S. and S.A. agree that 2 units of computers may be traded for 1 barrel of oil. The U.S. would trade 80 units of computers for 40 barrels of oil. Since the U.S. increases her consumption of oil from 30 to 40 paid for by exchanging computers for barrels of oil, a country's exports may pay for her imports in the long-run (see table 2).

Insert Table 2 about here

The evolution of the foreign exchange market

Firms, governments and individuals take part in different types of world trade. Some of them sell domestic finished goods in foreign countries (exporters) and/or buy raw materials or finished goods from overseas for domestic consumption (importers). When goods and services are purchased from foreign countries, different currencies are involved. If trading is between a U.S. firm and a British firm, the U.S. firm may prefer to pay

Table 2

Mutual Gains From Trade

United States (U.S.) And Saudi Arabia (S.A.)

Computers And Oil

	United States	Saudi Arabia	Total-U.S & S.A
Consumption	40 barrels	10 barrels	50 barrels
levels after	of oil	of oil	of oil
international	100 computers	80 computers	180 computers
trade			
Increased	10 barrels	4 barrels	14 barrels
consumption	of oil	of oil	of oil
	10 computers	36 computers	46 computers

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in dollars while the British firm may prefer payment in British pound sterling. Therefore, the U.S. firm will exchange (sell) dollars in the foreign exchange market in order to obtain the required pound sterling (Moyer, McGuigan & Kreitlow, 1990, p. 714).

The need to exchange domestic currency for foreign currency so as to engage in international activities gave rise to the foreign exchange market.

Most of the trading in the market are done in few currencies such as, U.S. dollar (\$), British pound sterling (£), West German mark (DM), Swiss franc (SF), Japanese yen (¥), Canadian dollar (Can. \$), French franc (FF), Netherlands (Dutch) guilder (DG), Belgian franc (BF) and the Italian lira (IL). It is an over-the-counter market. The Society for Worldwide Interbank Financial Telecommunication (Swift), which is used to transfer foreign exchange deposits and loans, is located in three operating centers of Brussels, Amsterdam and Culpeper, Virginia in the world.

Interest rate parity

Moyer, McGuigan and Kreitlow (1990) state that interest rate theory assumes the premium received in using forward rate of one firm equals the difference in interest rates between the two countries (p. 719).

Interest rate theory can be illustrated as follows: Suppose S represents spot exchange rate in French francs, FF represents the French foreign currency and Rus represents the U.S. interest rates on 12 month certificates of deposits (CD's). Also, let F represent the forward rate and assume an investor has one dollar to invest in French or U.S. CD's. If \$1 is invested in a U.S. CD, the investor will have $1+Rus$ at the end of one year. If it is invested in French franc, the dollar must be converted in the spot foreign exchange market and the investor will have SFF . At the end of one year, it will amount to $S(1+FF)$. If the investor wants the returns in dollars, the French investor must exchange French francs for dollars in the forward market. At maturity, the investment will be $S(1+Rus)(1/F)$. This situation will result in a formula for parity as:

$$\frac{F}{S} = \frac{1+FF}{1+Rus} \quad \dots\dots 1$$

Subtracting one from both sides of equation 1 yields:

$$\frac{F-S}{S} = \frac{FF-Rus}{1+Rus} \quad \dots\dots 2$$

Since $1+Rus$ is equivalent ($\approx$) to 1, equation 2 yields:

$$\frac{F-S}{S} \approx FF-Rus \quad \dots\dots 3$$

Equation 3 is equal to the approximate difference in the interest rates of two countries.

Balance of payment accounts

Balance of payment accounts record transactions between the residents of one country and those of another over a period of time, usually one year. Transactions are recorded on the basis of double-entry book keeping. The exports are viewed as credit items while, imports are debits.

Balance of payment accounts are grouped into the following categories:

- Export and import of goods and services

- Gifts or unilateral transfers

- Changes in financial claims caused by import and export of assets

- Allocation of special drawing rights (SDR's)

- And any statistical discrepancy.

Since activities of multinational corporations affect the balance of payments position of a country, this topic should be treated in detail when teaching international finance.

International Banking

Banks act as middlemen by channeling money and credit from lenders to borrowers. The funds deposited

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in banks are packaged and sold at higher prices. The rapid growth of international banking in U.S. is due in part to the imposition of regulation Q, which placed interest rate ceiling on the amount U.S. banks could pay on deposits in the 1960's (Grabbe, 1986). Another factor is the oil price increase of 1974 which led to an increase in the wealth of the Organization of Petroleum Exporting Countries (OPEC). International Banks were involved in the redistribution of wealth from the Non-OPEC countries to OPEC countries.

The management of International Banks require knowledge of people, economic and financial conditions, in home and foreign countries because, they are subject to many risks such as, default, economic and political risks. The management of assets and liabilities of International Banks is similar to traditional assets and liabilities management of domestic banks in strategic management issues such as, capital adequacy, liquidity and market exposure. But careful planning must be done in the areas of foreign currency, maturity mismatches of securities arising from volatility of interest rates and social-political factors resulting from environmental changes and cultural values in foreign countries.

The top management may set guidelines for the smooth operation of a bank abroad but, the application of these guidelines must take into consideration, specific socio-political and economic factors in each national boundary. Therefore, the approach which should be used in effective management is a combination of global and decentralized management styles.

Although, the claims of U.S. foreign banks have grown at an annual rate of 33 percent since the early 1970's, some of them have earned about 50 percent or more revenue from their international activities. As a result, the big money center banks such as Chase Manhattan Bank and CITIBANK rechanneled billions of petrodollars through loans to Less Developed Countries (LDC's) in the 1970's. These big banks earned lucrative fees for arranging loans to Argentina, Brazil, Mexico and other countries. As at the end of 1986, the debt owed industrial countries banks by Argentina, Brazil, Chile, Mexico and Phillippines are 31.3, 78.8, 13.9, 73.7 and 14.1 billion dollars respectively (Cline, 1988, p. 9).

Many attempts have been made to reduce the debt burden of countries such as Brazil, Mexico and Poland whose total debt as at 1988 is 110, 100 and 39 billion

dollars respectively. For example, CITICORP set aside \$3 billion in loan reserves in 1987 as protection against any default by Latin American countries.

Conclusions

Attempts to provide a workable financial system for the world resulted in the Bretton Woods Agreement. Since then, many national and international policies have been aimed at fostering international trade and to stabilize world economies.

Telecommunication technology has contributed to financial interdependence between countries because, it has facilitated rapid financial flows and foreign exchange is now traded twenty-four hours a day. It opens in the morning in New York, moves to San Francisco Sydney, Tokyo, Hong Kong, Singapore, Bahrain, Frankfurt, London and back to New York. International Banks beam their computers up and down to monitor their positions from the close of activities in Bahrain to the opening of activities in Frankfurt. The speed at which information is transmitted adds to the ups and downs of world markets (Federal Reserve Bank of Chicago, 1984).

The effective teaching of this course must combine modern teaching techniques by using the financial press and electronic devices to expose students to global

affairs. This is important so that the U.S. can maintain competitive edge in world markets. For example, the 25 million middle income people in Indonesia and about 25 million middle income people in India are worth considering for new markets. Exposing International Finance students to this type of information and the course content enumerated earlier, will lead to the discovery of new markets for American products in future.

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